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Forecasting Methods Applied To Current Situation

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In my article on business cycles in the March 1949 issue of the *Oregon Business Review*, I outlined a method by which reasonably accurate forecasts of the business cycle, for at least a short period ahead, might be made and given concrete expression. The method, briefly, is as follows: (1) determination of the present stage of the business cycle; (2) examination of three or four forecasts made by others; (3) isolation and analysis of current reinforcing and limiting factors in the outlook; (4) analogy between the present situation and past business cycles; (5) analysis of series that tend to anticipate general business activity; (6) summary and quantitative expression of findings; (7) relating findings to the specific industry with which the analyst is interested.

It is proposed to apply this method to conditions at the present time in order to get somewhat more insight into the future than is possible by unsystematic observation of current news. The first three of the steps will be undertaken in the first installment of this article; the latter four will appear in the November 1949 issue of the *Business Review*. As was pointed out in my earlier article, forecasting is far from being an exact science; if good results can be obtained 60 per cent of the time, the method will be worthwhile. It should be emphasized that lack of space does not permit citation here of detailed supporting data, as is normally desirable in a complete and systematic study.

Step 1: Examination of the current business situation reveals that our task may not be simple. At the present time many signs point to an upturn. Is this improvement the beginning of a significant trend, or is it merely a "jog" in the downward cyclical movement that has been in progress since October 1948? Opinion among economists is divided, as will be seen under Step 2.

It is generally recognized now that a large part of the recession has been due to net liquidation of inventories. As prices have moved downward slightly, consumer buying has slowed for some products. However, by midsummer 1949 it became apparent that overall general buying was being maintained at high levels, and, in those sectors in which demand had fallen off, such as textiles and other "soft" goods, that buying had improved noticeably. Automobile demand remained unsatisfied. As a result, manufac-

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Price Levels Influenced by National Debt Policy

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During the last two decades the American public has become thoroughly familiar with the undesirable results of rapid price-level changes. We have come on the one hand to fear inflation, and on the other to have almost a panic at the mere thought of deflation. At the present moment, it appears that the majority of prices are soft but without having any disastrous effect upon employment, bank solvency, farm income, or other tender parts of our economy. However, we are by no means free of a haunting fear that something may suddenly happen to prices that will have disastrous repercussions. The probable future shifts in price levels is one of continued interest.

There is substantial reason to believe that over a period of a decade or more the general price level will be higher than it is now; although prices may fluctuate up and down rather widely, there will be a pronounced upward trend. There are many political and economic factors leading to this conclusion, among them being government price support of selected agricultural products, the strong bargaining position of labor unions, and large expenditures on our military program; but the factor which appears to make higher price levels virtually inevitable is the existence of a huge national debt that government policy makers wish to carry at a low rate of interest. The means by which this objective will be attained will greatly enlarge the reserves of commercial banks (balance in the Federal Reserve banks), thereby making possible a multiple expansion of loans and deposits. Should a marked increase in bank loans and deposits occur, the general price level will also rise.

Nature and Causes of Price-Level Changes. When we speak of price changes, we may refer either to the price of one commodity or service or to the prices of all commodities and services that are exchanged for money. The analysis of the determinants of individual prices is completely different from that of the prices of all goods and services for which money is exchanged. This latter concept is the one with which this article deals and is referred to variously as the general price level, the purchasing power of money, or value of money. A higher general price level is the same thing as a lowering of the purchasing power of the dollar, whereas a lowering of the general price level is an increase in the purchasing power of money.

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Price Levels Influenced by National Debt Policy

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The general level of prices (purchasing power of money) is the result of the interaction of the size of the flow of goods and services purchased with money over a period of time and the size of the flow of money with which this purchasing is effected. Assuming that nothing happens to the size of the money stream, anything which increases the rate of business activity will lower the general price level. We are all familiar with this idea when it is expressed in the form of a statement that the "proper" way to lower prices is increased production. Conversely, anything which decreases the rate of business activity, the flow of money remaining unchanged, will tend to raise the general price level. During the war and first postwar years we heard much about inflation being caused by a scarcity of goods, which was an example of a relative decrease of goods sold compared to the flow of money. On the other hand, anything which increases the size of the money flow, the volume of business remaining the same, raises the general price level and anything which decreases the size of the money flow decreases the general price level. The size of the money flow depends upon two factors—the quantity of money in circulation and the rate at which it changes hands (velocity). If either of these increases, the general price level also rises, and vice versa.

We may summarize this brief discussion of the determinants of the general price level by saying that the purchasing power of money varies inversely with the rate of business transactions and directly with the quantity of money and its rate of turnover. Of these three variables, the rate of business activity and the velocity at which money is transferred can be altered by government policy only with considerable difficulty. The rate of business activity depends upon a wide variety of factors, among them being the resources of the country, the amount of capital goods, cost-price relationships, and monopoly situations. The velocity at which money circulates is primarily a matter of the habits and psychological attitudes of the public. However, changes in the quantity of money are easily influenced by government action.

The Quantity of Money. Money, as the term is employed in this article, is whatever people use as a means of payment. In our present economy, coin, currency, and bank deposits subject to check are our media of exchange.

Changes in the quantity of money result from causes which vary with what is used for money. In the Middle Ages, gold and silver (circulating by weight) were almost the only forms of money. Following the discovery of America, the Spaniards plundered and robbed Mexico and Peru of the treasures of the Aztecs and Incas. For nearly a century there was a golden stream flowing from the New World to Spain and thence over Europe generally. Although business increased during this period, the quantity of money increased much more rapidly, with the result that there was a century of rapidly rising prices commonly called the Price Revolution. This is an example of a long period of inflation involving only "hard money."

We more often think of inflation as based on a sharp increase in the amount of paper money. This is because there have been a number of very bad inflations caused by overly active printing presses—often the result of governmental deficits incurred by war. This has happened in countries having, at the time of the inflation, paper currency as the principal constituent of their monetary system.

In our present economy, bank deposits subject to check are the most important constituent of our money. Figures for the United States as of June 30, 1949 are: coin, $1.5 billion, currency, $26.0 billion, bank deposits subject to check in all commercial banks (exclusive of interbank deposits), $89.3 billion.

It is obvious from these figures that the primary way inflation or deflation resulting from changes in the quantity of money occurs today is through variation in bank deposits. The deposit liability of an individual bank may be increased by deposits of coin, currency, and checks on other banks, coupons and other noncash items entered for collection and payable at other banks, and the proceeds of loans. Decrease of a bank's deposit liability results from the writing of checks by depositors. For the banking system as a whole, as distinguished from an individual bank, variations in deposit liabilities are due primarily to expansion or contraction of loaning activities. If I go into my bank and borrow $1,000, my checking account is credited with that amount. This increases the deposit liability of my bank as well as of the entire banking system, because it involves no transfer of funds from any other bank nor an exchange of currency for a bank deposit. Likewise, when I pay my loan, I write a check to my bank for $1,000 and this decreases my account as well as the total of my bank's deposits and the deposits of all banks. Transfers of funds from one bank to another affect the deposit liability of individual banks but not of banks as a whole, whereas loans affect the deposit liability of both individual banks and banks as a whole. Likewise, when a commercial bank subscribes for a government bond, it makes payment by setting up a deposit in favor of the government. Thus, lending by banks to individuals, firms, or the government, when not offset by repayment of outstanding loans, increases the quantity of money.

Bank Reserves as Limitations upon Lending. An individual bank must keep a balance at its Federal Reserve bank equal to a certain percentage of its own deposit liabilities. This assures the depositors of that bank that it is maintaining a given degree of liquidity. However, the total volume of reserves that all the commercial banks possess limits the total volume of bank deposits. That is, if the total volume of all bank reserves is $1 billion, and the reserve requirements are 10 per cent of the total deposits, then the total bank deposits could not exceed $10 billion. If the deposits of the banking system are but $9 billion and the reserves $1 billion, then the banks as a group can have

an additional $1 billion deposits. These would be obtained by additional bank lending operations, providing there was both a desire by the banks to lend and also borrowers wishing to borrow.

The volume of reserves available to the banking system, coupled with the relationship these reserves must bear to the total bank deposits, determines the maximum bank deposits. The volume of bank reserves is not a fixed amount; rather it can be altered in many ways, some of which are—transfer of United States Treasury balances from Federal Reserve banks to commercial banks or from commercial banks to Federal Reserve banks, gold flows, member banks borrowing from the Federal Reserve banks, and the open-market purchase or sale of government bonds by the Federal Reserve banks.

Of these various methods, the only one that is of interest here is the purchase and sale of government bonds on the open market by the Federal Reserve banks. These transactions are handled by an open-market committee acting on behalf of all of the Reserve banks. When the Reserve banks buy government bonds on the open market, they pay for the securities by a cashier's check which eventually is deposited by a member bank in its reserve account, thereby increasing its reserve (and total bank reserves). This permits member banks to increase their loans (and deposits) by several times this amount, the exact multiple depending upon the required ratio between deposits and reserves. The sale on the open market of government bonds held by Federal Reserve banks has exactly the opposite effect, i.e., it decreases member-bank reserves which, in turn, will tend to reduce deposits in member banks by several times this amount. The great expansion of bank deposits during the last fifteen years has been made possible by the increase in government bonds held by the Reserve banks by more than $20 billion. Any substantial decrease of this quantity of bonds, barring offsetting action, would result in such a violent curtailment of bank loans (and deposits) that lower prices, widespread unemployment, and all the other disastrous accompaniments of deflation would ensue. In fact, the then chairman of the Board of Governors of the Federal Reserve System stated a couple of years ago that such a policy would be adopted only if Congress so instructed the board by joint resolution. The point to be emphasized is that a purchase of government bonds by the Federal Reserve banks increases member-bank reserves and makes possible a multiple expansion of bank deposits, whereas a sale of government bonds decreases member-bank reserves and results in a contraction of bank deposits.

Federal Reserve Policy and the Government Bond Market. It is common knowledge that the policy of the Federal Reserve authorities is presently strongly influenced, if not dominated, by considerations related to the management of the Federal debt. The Federal debt of $250 billion comprises about 60 per cent of all the outstanding debt in the country. The management of the Federal debt means "the maintenance of an orderly market in government securities," in the words of the Board of Governors of the Federal Reserve System. For practical purposes, it means on occasion keeping the price of outstanding low-coupon-rate government bonds higher than would otherwise be the case.[1] Should the price of outstanding government bonds drop (that is, should the rate of interest rise), new issues would have to be given a higher coupon rate of interest to sell at par. The interest on the debt already amounts to $5 billion a year and an increase of ½ of 1 per cent would add $1.25 billion to this interest.

The Federal Reserve authorities have since the early 1920s bought and sold government bonds in the open market for the purpose of affecting the reserves of member banks. If the Federal Reserve authorities wished to tighten up on credit, that is curtail the lending activities of member banks, one of the tools they used was to sell government bonds. On the other hand, if they wished to loosen credit, that is set the stage so that commercial banks would be placed in a position where they could expand lending activities, one of their steps would be to buy government bonds on the open market. It should be emphasized that prior to 1937 purchases and sales of government bonds by the Federal Reserve banks were solely for the purpose of affecting member-bank reserves.

Apparently in 1937 the Federal Reserve banks for the first time bought long-term government bonds primarily for the purpose of limiting a decline in the price of government bonds on the open market. This was done again in 1939 when the outbreak of war caused a drop in the price of government bonds. During the war the Federal Reserve banks bought heavily of government bonds, partly to give the commercial banks adequate reserves to expand their loans and purchases of new issues of government bonds and partly to keep down the interest rate on government bonds.[2] During the war, interest rates on government securities were pegged at rates varying from ⅜ of 1 per cent for Treasury bills to 2½ per cent for long-term issues. This meant that, any time Treasury bills declined so that a purchaser of an outstanding bill could get a higher return than ⅜ of 1 per cent, the Federal Reserve banks bought until this was no longer the case. The pattern of interest rates to be supported was decided primarily by the Treasury Department and not by the Board of Governors of the Federal Reserve System.

Since the war short-term issues have been permitted to rise, but the long-term issues have been held at 2½ per cent. The present policy appears to be to permit some flexibility of interest rates, especially on short-term issues, but nevertheless to maintain a definite control by purchase of bonds. The Reserve authorities have stated that the long-

[1] At the time of writing, Treasury bills are not in need of price support. Actually, the open-market committee for some time prior to June 28, 1949 had sold government securities in order to keep their price down. On that date the committee announced that purchase and sales of government securities would be directed to avoid absorbing bank reserves rather than to support a pattern of relatively fixed yields on government securities. This statement does not, in the opinion of the writer, mean that the open-market committee will permit substantial downward price adjustments in the government security market (i.e., a rise in the rate of interest). In other words, the Federal Reserve System will still upon occasion acquire government securities to prevent a fall in their price, but will not sell to prevent a rise. The long-run implications of this interpretation are inflationary in the extreme. It is interesting to note that the Federal Reserve Act states that "open market operations shall be governed with a view of accommodating commerce and business and with their bearing upon the general credit situation of the country"; no mention is made of supporting the government bond market.

[2] Of minor importance to the end of maintaining a stable bond market were certain regulations regarding advances to banks made on notes secured by government bonds.

term rate of 2½ per cent is to be maintained as far in the future as can now be foreseen.

Proposed Bond Reserve for Banks. A proposal that has received serious consideration is that member banks be required to maintain a volume of government securities bearing approximately the same relationship to deposits that now prevails. The effect of this would be to force commercial banks to hold a large portion of the government debt and thus remove it from possible sale on the market. Presumably the interest rate on the bank-held debt would not necessarily bear a relationship to open-market rates. The proponents of the plan argue that the Treasury officials would then be willing to let the price of the nonbank-held debt fluctuate without Federal Reserve control.

The writer is of the opinion that this plan will not be adopted by Congress, and that even if it were the Treasury Department would not permit the price of the nonbank-held debt to fluctuate. If this view is correct, the Board of Governors of the Federal Reserve System would still find itself in an insoluble dilemma; if it elects to conduct its open-market operations in such a way as to benefit the general economy of the nation, the price of government bonds will sometimes fall undesirably low; if it supports the government bond market, it will increase member-bank reserves (that is, deposits with the Federal Reserve banks) without regard to the effect upon the general economy.

Implications for Future Price Levels. Because of the size of the national debt and the great concern of the Treasury Department in keeping the rate of interest on it low, a continuation of the policy of price support of the government bond market appears probable. There are other reasons (that will not be discussed here) which are less compelling but which make more certain the conclusion that such a policy is almost unavoidable. The unlikelihood of the national debt being substantially reduced is another factor further strengthening this conclusion.

If the Federal Reserve banks are to have as a major policy the stabilization (control) of the government bond market, their holding of government bonds will become larger and larger, which will mean that total member-bank reserves will likewise become larger and larger. It is true that the Board of Governors of the Federal Reserve System has the power to alter reserve requirements, within limits, which makes it appear possible to increase member-bank reserve requirements at a rate fast enough to offset the increased total reserves, so that the member banks as a group would be deprived of the power to increase their loans (deposits). However, the extremely large holdings of government bonds by member banks (that is, the commercial banks) means that the member banks can always sell from their huge holdings of government bonds at a relatively stable price because the Federal Reserve banks stand ready to buy. Thus, member banks can easily increase their reserves—so that the Federal Reserve authorities are impotent to limit commercial banks in expanding their loans (deposits).

To summarize, there seems to be good reason to believe that the Federal Reserve banks will continue to acquire government bonds on the open market every time the government bond market weakens. This means augmentation of member-bank reserves, which will put the commercial banks in a position to greatly increase their loans (deposits). It is unlikely that the commercial banks of the country will fail to expand their loans if, over a period of several years, they have substantial excess reserves. This is almost certain if the Federal government is concurrently operating at a deficit, so that an increasing volume of government bonds is being placed on the market. Thus, the quantity of money in the United States will probably increase substantially in the next few years, and the Federal Reserve authorities are in a position where they can do little or nothing to check it. The conclusion seems justified that the present period of price stability or decline is purely an interlude in a long-term trend of rising prices, due to an increase in the quantity of money which cannot be effectively controlled because of the adoption of the policy of support of the government bond market by the Federal Reserve banks.

Forecasting Methods Applied To Current Situation

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turers' stocks fell by $2.4 billion between February and August 1949, and were becoming low enough so that net additions to stock became desirable. Such additions have been occurring during the last five or six weeks. Furthermore, the psychological reaction of the general public has altered, so that it is now no longer felt that consumers can profit by holding off for lower prices.

Besides the factor of additions to inventory, another important factor has been an upsurge in housing starts. With low interest rates and lower building costs as a lure, many people decided to fulfill their long unsatisfied need for homes. The vast reservoir of personal savings and abundant supplies of credit will probably enable this trend to continue.

Because of the nature of the recession—i.e., its mild character and the failure of any downward price or production-employment-purchasing power spiral to develop—and because of the encouraging signs today, it is my opinion that we are at a lower turning point. The main question to be ascertained by this analysis is how far up and how fast business will move before the next turning point reverses the movement.

However, let us first turn to the ideas others have expressed.

Step 2: A. W. Zelomek[1] is of the opinion that, although production is increasing, the recession is definitely not over, and lists as the chief reasons for his belief: (a) In the past, wholesale prices have continued to decline after production began its rise, and will probably do so now because (i) the only increases in new orders are in textiles and nonferrous metals, and these must be considered temporary since they resulted from rock-bottom inventory levels, and (ii) there are still price distortions, especially in durable goods—adjustments must be made in both automobile and capital goods industries. (b) Federal farm-price supports maintain high food prices, causing hardship to urban consumers, thus diminishing buying power. (c) Relative to the situation of organized industrial workers,

[1] A. W. Zelomek, *Commercial and Financial Chronicle*, Sept. 15, 1949, p. 4.

millions of unorganized white collar workers are suffering in purchasing power.

This analysis may be criticized along three principal lines. In the first place, moderate declines in wholesale prices are a favorable factor in restoring a lower cost of doing business, and hence favorable for profit margins. While a drastic fall in wholesale prices could indeed cause the recession to continue, such a fall does not appear to be imminent, in view of recent increases in indexes of wholesale prices. In the second place, distortions of buying power among various consumer groups, while causing some individual hardships, are not a powerful deflating force as long as total buying power among those who have a high propensity to consume is maintained. This observation is supported by the high level of retail sales, a level which has been rising in recent weeks. In the third place, the analysis does not give due weight to increased home building, continued strength in investment for plant and equipment, and other favorable conditions in the economy at present.

The report of the President's Council of Economic Advisers at midyear, 1949, noted a distinct improvement in some industries, particularly residential housing, in the second quarter. It emphasized the favorable import of plans for new investment (materializing at present), large resources of liquid assets in the hands of consumers, and various governmental programs for maintaining stability. The report did not neglect treatment of the uncertainties that seemed important at midyear, such as (a) the rise in nonagricultural unemployment (now largely dispelled), (b) the inventory liquidation (now largely halted), (c) the natural business hesitancy and caution resulting from these forces (not as yet entirely gone). In conclusion, it indicated that the outlook was not gloomy, and that the downward adjustment of prices was healthful in view of the inflation that had been prevailing. It emphasized that it was the government's duty to keep alive private investment incentives, in view of the crucial importance of investment in maintaining prosperity. The report is quite useful and well supported. It perhaps underemphasizes the role of government in contributing to the hesitancy on the part of businessmen, but it recognizes that the job of maintaining prosperity lies mainly with private industry, with government compensatory devices being applied when private industry fails to do the job.

The *United States News* "Trend of American Business" makes a hopeful forecast for business activity into 1950.[2] Listing as the chief reason the continued strength of retail sales, the report indicates that prospects for a $5.5 billion deficit in government spending, some tax cuts, continued increases in industrial production and in total construction, and the rise in cotton consumption (considerable) are factors affecting the business recovery. On the other hand, the authors of this forecast believe that falling exports, cautious inventory buying, and the fact that most of the 6 per cent increase in total construction during the first half of 1949 occurred in public utility building, while other types of building declined slightly, will be factors limiting the upswing. The report seems unbiased and well supported, but makes little attempt at interpretation and analysis of the facts presented.

[2] See the article "Why Business Is Improving," *United States News and World Report*, Sept. 9, 1949, p. 13, and "Trends of American Business," p. 47, in the same issue.

The report of the President's Fact Finding Board on the steel-wage controversy, while not a forecast, involves the question of wage policy, an important determinant of the business cycle, and should perhaps be considered here. Chairman Daugherty's position on wages agrees by and large with the report of the Economic Advisory Council—that, at least, wages should not be reduced. A general reduction of wage levels would accomplish nothing and would damage the economic machine seriously. Daugherty goes further, however, and holds that wages should not be increased, that increases would be bad for the economy because: (a) Increases would raise costs immediately; increased costs are now hard to pass on in price increases; therefore, profits would suffer, with consequent reductions in investment incentives, as well as output restriction. (b) A wage-rate increase might not result in increased consumption (and hence employment) as the unions argue; hours of work might be curtailed enough to prevent the total wage bill from increasing, and wage earners might hoard any added income they might receive. (c) A wage demand could result in strikes from which no one would benefit.

Daugherty holds further that increased steel productivity (which he denies) should not be made the basis for wage increases. Rather steel wage rates should be related to a general industrial increase in productivity. (This would seem to mean that some efficient workers must wait on their less efficient brothers before gaining from increased productivity.) Also, he holds, any "excess" profits in steel should be applied to new investment within the industry rather than to wage increases.

His position is, then, that stability in wages and income is what is needed most now, and that payment of pensions by industry would help create the security and stability within the home that is needed.

Whether economically sound or not, acceptance of the board's recommendations by industry and unions would probably mean that there would be no general increase in disposable wage income (and in total national income) for at least a year. This suggests that any rise in the course of the business cycle will be limited. It is doubtful if the board's position that "stabilization is desirable" will indeed produce stabilization, but it provides an interesting example of an attempt to iron out the business cycle by public fiat. Wage policy, it may be added, will become less difficult when various interested groups cease considering labor as if it were a single unit—a force such as electric power—uniform and of equal productivity and perfectly mobile and homogeneous.

The above forecasts, with one exception, agree that the recession is probably over, although they do not seem too sure of this. Zelomek, who thinks the turning point has not yet been reached, does not present very convincing reasons for his belief. It is at precisely such a time as this, when the future trends seem uncertain, that a systematic analysis as herein proposed can be of optimum value. Let us proceed to the next step.

Step 3: On the assumption that we are indeed at a lower turning point, the next step is to summarize and weigh forces that seem to be the chief determinants of the future course of business activity in general. The degree to which the reinforcing factors are stronger than the limiting forces can be said to shape the upward course.

Among the reinforcing factors at present may be listed:

(a) Home building starts numbered 98,000 in August 1949, as compared to 86,500 in August 1948 and to 96,000 in July 1949. This trend will very probably continue, and is a powerful force.

(b) Industrial production, as measured by the Federal Reserve Board Index, is about 177, as compared to 162 in July 1949.

(c) The Bureau of Labor Statistics wholesale price index rose to 154.6 per cent of 1926 in September 1949, as compared to 150 in June.

(d) The seasonally adjusted department-store sales index reached nearly 300 in September, as compared to 275 in July.

(e) The government budget program shows a strong possibility of deficit spending for the fiscal year, in spite of "paper cuts" by Congress.

(f) The rise in employment to just under 60,000,000 and a 400,000 fall in unemployment in August 1949 forms a solid base for continuance of consumer demand.

(g) There are signs of increasing business confidence. The Dow-Jones industrial averages have risen steadily since June. Increased bank loans for working capital for the last six weeks and stock-market solicitation of smaller investors are evidence of this confidence. The number of commercial failures has fallen.

(h) The liquid position of banks and other lending institutions make possible a great credit expansion. Government support of its own bond market adds excess reserves for further credit expansion, at low interest rates.

(i) Government-backed stabilization measures, such as expanded social security, bank-deposit insurance, and close control over our monetary system, while not necessarily inflationary, serve to allay fears of a money and unemployment panic.

Among the limiting forces may be listed:

(a) Inflated prices in certain durable lines are probably due for some downward adjustment. Automobiles, for example, will probably come down moderately in price. At least one company has already announced a price cut on 1950 models. The extent of such price cuts may be reduced by any prolonged strikes.

(b) Currency devaluation abroad will be deflationary in this country at first, but later on the increased supply of dollars abroad will result in more exports. But first must come a reduction in our exports, relative to past levels, so that foreign countries can accumulate more dollars. The lowered prices of foreign goods will offer home goods stiff competition and may result in lower prices on certain commodities here at home. The *Oregonian* reports, for example, that wool buyers from Boston are lowering their offering price for Oregon wool, since they expect an influx of Australian wool at lower prices. This factor means good business for importers and bad business for exporters at first; but, in the long run, both domestic and foreign economies should benefit from the increased trade engendered.

(c) The level of private investment for producers' durables, as yet strong, is unlikely to continue at the rate maintained for the past three years, since shortages are being overcome and postwar investment plans are being completed. This element of investment increased 65 per cent between 1945 and 1946, 38 per cent between 1946 and 1947, and 20 per cent between 1947 and 1948. So far this year it has just been maintaining 1948 levels. Expenditures for capital goods are important out of proportion to their relative size in the total expenditure picture. Compensatory public investment will probably be made if private investment lags.

(d) Any substantial rise in disposable wage income appears to be out of the question at present.

(e) The relative uncertainty of businessmen's opinions concerning the actions of government should probably be listed as a factor limiting any great upsurge of business activity. Governmental action on lowered taxation is a great question mark at present. Taxes are so important that they often determine whether or not a given investment will be made. However, the factor is difficult to evaluate objectively.

While it appears on the surface that reinforcing factors have the edge over limiting factors today, there is clearly no preponderance of evidence on either side. Any significant change on one side or the other may tip the scales upward or downward; for example, a decision by Congress to eliminate the deficit would remove an important inflationary force. We must complete our analysis before arriving at any final prediction.

(To be continued)

CURRENT BUSINESS TRENDS IN OREGON

BANK DEBITS

Bank debits represent the dollar value of the checks drawn against individual deposits. Approximately 90 per cent of all goods, property, and services is paid for by check. Bank debits are regarded as indicators of the general trend of business, though their value for this purpose may be impaired by substantial changes in the level of prices. The Bureau of Business Research collects bank debits from 117 banks and branches monthly. On occasion, the totals for the same month in different issues of the *Review* are not directly comparable because of necessary adjustments in basic data.

Marketing Districts	*Number of Banks Reporting*	*Debits Aug. 1949*	*Debits July 1949*	*Debits Aug. 1948*	*Aug. 1949 compared with July 1949*	*Aug. 1949 compared with Aug. 1948*
Oregon	102	$885,242,289	$867,097,857	$1,032,225,024	+ 2.0%	−14.2%
Portland (Portland, Hillsboro, Oregon City, etc.)	30	520,514,129	525,251,555	634,371,996	− 0.9	−17.9
Lower Willamette Valley (Salem, McMinnville, etc.)	13	81,101,033	82,327,965	81,972,943	− 1.5	− 1.1
Upper Willamette Valley (Albany, Corvallis, Eugene, etc.)	14	91,374,722	85,362,768	103,970,062	+ 7.0	−12.1
North Oregon Coast (Astoria, Tillamook, etc.)	4	18,564,526	17,544,383	23,602,296	+ 5.8	−21.3
Douglas, Coos Bay	5	28,460,707	23,599,810	30,637,012	+20.6	− 7.3
Southern Oregon (Ashland, Medford, Grants Pass)	6	38,500,254	35,765,071	41,840,544	+ 7.6	− 8.0
Upper Columbia River (The Dalles, Hood River, etc.)	7	18,088,458	16,688,630	18,478,540	+ 8.4	− 2.0
Pendleton area	6	23,359,849	19,002,092	25,049,924	+22.9	− 6.7
Central Oregon (Bend, Prineville, Redmond)	4	15,080,745	14,603,150	16,549,088	+ 3.3	− 8.9
Klamath Falls, Lakeview area	4	23,156,824	21,301,463	27,704,697	+ 8.7	−16.4
Baker, La Grande area	6	16,978,560	16,187,255	18,767,874	+ 4.9	− 9.5
Burns, Ontario, Nyssa	3	10,062,282	9,463,715	9,280,048	+ 6.3	+ 8.4